Thomas E. Freeman
Corporate Executive Vice Pres.
Chief Credit Officer

SunTrust Bank
P. O. Box 4418
Atlanta, GA 30308-4418

April 10, 2006

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Re: Docket No. IO-1246

Re: Proposed Interagency Guidance on Non-traditional Mortgage Products

Dear Ms. Johnson:

SunTrust Banks, Inc. (SunTrust), headquartered in Atlanta, is one of the nation's largest banking organizations with total assets of $179.7 billion and total deposits of $122.0 billion as of December 31, 2005. It serves a broad range of consumer, commercial, corporate and institutional clients throughout the high-growth Southeast and Mid-Atlantic states and in selected markets nationally. Its primary businesses include deposit, credit, trust and investment services. Through various subsidiaries the Company provides credit cards, mortgage banking, insurance, brokerage, and capital markets services

SunTrust Mortgage, Inc., a wholly-owned subsidiary of SunTrust Bank, originates loans through 170 locations in SunTrust markets and adjacent states, maintains correspondent and broker relationships in forty-eight states, and services loans in fifty states and the District of Columbia. SunTrust Mortgage originated $47.7 billion in mortgage loans in 2005 from a full suite of products and services and has a servicing portfolio of $105.6 billion as of December, 31, 2005.

<u>Comment</u>

SunTrust has prepared the following response from the request of December 20, 2005 by the OCC, Board, OTS, and NCUA (the Agencies) to comment on the proposed Guidance on Non-traditional Mortgage Products (Guidance).

The Agencies have expressed concern with origination of interest-only and payment option ARMs (Non-traditional mortgages). This concern is understandable as institutions have expanded the availability of the products to a wider spectrum of borrowers while combining other loan features, such as low-documentation and simultaneous second-lien mortgages. The Guidance covers three specific areas: Loans Terms and Underwriting Standards, Portfolio and Risk Management Practices, and Consumer Protection Issues.

It is SunTrust's general opinion that the Guidance is mindful of the challenges facing institutions and seeks to provide a framework in which institutions may provide flexible loan programs to its borrowers while preserving the safety and soundness of the institution. Additionally, SunTrust concurs that protection of consumer's rights is imperative and that this can be accomplished through better disclosure to the borrower.

Response

First we would like to note, the Guidance assumes interest-only and payment option ARMs are cohorts with similar risks which we do not fundamentally believe to be true. Additionally, we are concerned the nomenclature of "non-traditional" mortgage products is inaccurate and misleading. Interest-only loans have been successfully offered on a national basis for many years, especially by community banks. An active secondary market was formed when FannieMae began offering their "Interest First" product over 10 years ago. Payment option ARMs have been offered primarily by West-coast thrifts for equally as long.

Clearly, as the rate of amortization slows (or becomes negative), loans require greater risk management sophistication. This principal remains true whether the discussion is focused on 15 year and 30 year straight amortization loans or interest-only and payment option ARMS. In addition to econometric modeling capabilities, institutions retaining loans with the potential for limited or negative amortization must have substantial collateral tracking, loan administration systems, and collection processes.

Where specific comment was requested, these three questions are best answered by addressing layered risk concerns and their mitigating factors. Broadly stated, current industry underwriting guidelines already assess and price risk. While this Guidance is specific to certain considerations, it has gaps relative to the use of credit scores, debt-to-income analysis, and portfolio management options such as lender purchased mortgage insurance.

SunTrust is open to additional disclosure requirements for loans with greater risk to consumers. Borrower disclosures should be strictly prescribed, written in "plain English", consistently communicated, and made part of regulations which apply to all lenders, not just regulated financial institutions. Regulatory requirements are most effectively promulgated through amendments/clarifications to existing Truth-in-Lending law (TILA/Reg. Z). This would prevent driving consumers to loosely regulated or altogether unregulated institutions for loans with the highest degree of borrower risk.

As to the overall scope of the Guidance, SunTrust believes it is unclear if the Guidance is intended to cover only loans held in portfolio or all originations. Also, in the case of simultaneous seconds, does the Guidance apply only to the first mortgage or also the second mortgage? Are seconds closed at a latter date subject if they are behind a non-traditional first mortgage? Would the Guidance apply to a HELOC if granted in a first lien position?

Questions such as those posed above illustrate that the Guidance requires more descriptive and prescriptive language. It is our understanding that any Interagency guidance must be sufficiently broad so that it may be applied in a multitude of situations. This Guidance, however, has the potential for multiple interpretations from which the very results may be more detrimental to the borrower and the safety and soundness of an institution than had it not been written.

SunTrust would like to provide additional comment on and/or request clarification on the following items:

LOAN TERMS AND UNDERWRITING STANDARDS

Qualification Standards

This section attempts to address the need for consistent and comprehensive factors in the qualification of a borrower. However, to us it seems what actually comes across is vague, slightly confusing, and open to interpretation. Terms such as high LTV, high DTI and low credit scores are not defined and should be better clarified. Are these factors to be considered individually, in combination, or in their entirety? Our goal is to consider all three scenarios thereby ensuring that with increased risk comes greater examination during the originations and underwriting process. Additionally, what is the definition of high LTV? A regulatory definition such as determined by FDICIA provides not only regulatory consistency but also promotes an easier transition to any resulting changes.

One of the factors that should be considered in the debt-service evaluation is payment shock and interest rate changes. These considerations should be based upon realistic expectations in borrower behavior and interest rate changes rather than worst-case scenarios.

One phrase in particular is confusing and somewhat troubling – "non-traditional mortgage loans often are inappropriate for borrowers". Are regulated financial institutions required to determine what is appropriate? It might be interpreted that the Agencies are trying to address public policy rather than safety and soundness. For example, a lender may be conflicted by this Guidance and sponsored programs such as those from the FHA or VA that allow for liberal qualifying criteria and require smaller down payments.

Collateral Dependent Loans

SunTrust agrees with the Guidance but would ask for further explanation of what is meant by "having to rely on". For example, this section could be construed to prohibit bridge loans and all balloon loans. Can an institution qualify the borrower under terms of a fully amortizing loan and still allow for balloon financing? We have concluded that the intent is to address the unsuitability of making collateral dependent loans and that reliance on continuing high home value appreciation rates is inappropriate.

Risk Layering

This section is not clear with respect to simultaneous seconds. Is the Guidance intended to apply only to the first lien loan or also to the second lien? The Guidance should specifically state in which scenarios it applies.

Simultaneous Second-Lien Loans

The phrase "minimal owner equity" is vague but may become self-evident when a definition of high LTV is determined. Based upon the intent of this section, does this mean that institutions should not offer second lien loans behind interest-only or option ARMS? Do the interest-only restrictions apply to the second lien loan as well? It seems this would be the appropriate place to address the need for any specific rates of amortization within one or both of these loans. A need for a specific rate of amortization should be mitigated by lower LTV ratios and/or more financial reserves and stability of the borrower.

Not contemplated within this section is the availability of portfolio management options. Mortgage Insurance provides substantial protection against loan losses and should be incorporated into the Guidance.

Non-Owner Occupied Investor Loans

SunTrust requests additional clarification as to whether a borrower "has sufficient cash reserves to service the loan in the near term". It would be beneficial for the Guidance to provide some clarity around the definition of the term "sufficient". Current SunTrust policy and practice does not allow for the inclusion of income derived from the property in question to be considered in the debt-service capacity evaluation.

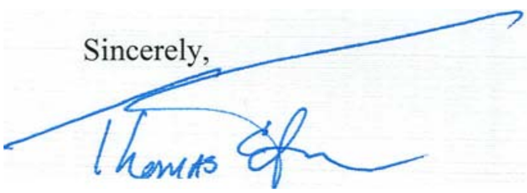
PORTFOLIO AND RISK MANAGEMENT PRACTICES

Third-Party Originations

The section on third-party originations creates an obligation to ensure that third-party originators comply with all applicable laws and regulations "with particular emphasis on marketing and borrower disclosure practices". This is unworkable and overly burdensome; financial institutions cannot reasonably monitor the marketing and sales interactions of thousands of brokers.

CONSUMER PROTECTION ISSUES

Non-traditional loan products carry a higher degree of risk and the mortgage industry should adopt more proactive and prominent disclosures for higher risk products. Any requirement for additional borrower communication should be specifically prescribed and made part of TILA/Reg. Z. Disclosure format and language should be a part of TILA so as to affect the entire industry and not just the smaller sub-set of regulated financial institutions.



Thomas E. Freeman
Corporate Executive Vice President
Chief Credit Officer